

## Message Text

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60

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 PA-01 PRS-01 USIA-06

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R 232024Z DEC 74

FM AMEMBASSY NASSAU

TO SECSTATE WASHDC 6290

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E. O. 11652: N/A

TAGS: ECRP IMF BF

SUBJ: HOUSE DEBATE ON BAHAMAS 1975 BUDGET

REF: (A) NASSAU 2075; (B) NASSAU A-282

1. HOUSE OF ASSEMBLY UNANIMOUSLY PASSED BUDGET DECEMBER 20 AFTER 21 HOURS OF DEBATE. MOST IMPORTANT ISSUE STEMMING FROM DEBATE WAS NOT BUDGET ISSUE BUT DISCLOSURE BY OPPOSITION MEMBER NORMAN SOLOMAN THAT GOVERNMENT OFFICIALS HAD TOLD IMF THAT INTRODUCTION OF INCOME TAX IN BAHAMAS WAS "JUST A MATTER OF TIME".

2. SOLOMON WAS ASSUMABLY QUOTING FROM THE IMF STAFF REPORT SM/74/215 DATED AUGUST 30, 1974 (SEE PAGE 5) WHICH READS "NEXT, THE STAFF REPRESENTATIVES ASKED IF THE GOVERNMENT WOULD BE PREPARED TO BROADEN THE TAX BASE, IF NEED BE BY INSTITUTING AN INCOME TAX, IN ORDER TO FINANCE INFRASTRUCTURE INVESTMENT THAT WAS NOT EXCLUSIVELY TOURIST RELATED. SOMEWHAT TO THE STAFF TEAM'S SURPRISE, THE BAHAMIAN REPRESENTATIVES REPLIED THAT AN INCOME TAX WAS JUST A MATTER OF TIME, BUT THAT THE GOVERNMENT HAD NO INTENTION OF ALTERING THE STATUS OF THE BAHAMAS AS A TAX HAVEN FOR NONRESIDENTS."

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3. THE PRIME MINISTER QUICKLY AND IN NO UNCERTAIN TERMS CRITICIZED SOLOMON FOR SEEKING TO SCORE A "CHEAP POLITICAL V ADVANTAGE AT THE RISK OF RUINING THE REPUTATION OF THE BAHAMAS."

4. GCOB IS GENUINELY CONCERNED ABOUT SOLOMON'S REVEALING "CONFIDENTIAL INFORMATION" FIRSTLY FROM THE POINT OF VIEW OF WORKING RELATIONS BETWEEN GCOB AND INTERNATIONAL ORGANIZATIONS AND SECONDLY FROM THE POINT OF VIEW OF INVESTOR CONFIDENCE.

5. GOVERNOR OF THE CENTRAL BANK TIM DONALDSON REPORTED TO EMBASSY ECON OFFICER THAT HE HAS BEEN RECEIVING NERVOUS PHONE CALLS FROM BANKERS AND BUSINESSMEN BOTH IN CANADA AND U.S. HE IS ALSO CONCERNED THAT IMF MAY BE RELUCTANT TO DEAL WITH GCOB IN FRANK MANNER IN FUTURE AS AT ONE TIME IMF REFUSED TO WORK IN BAHAMAS FOR SIX YEARS OVER SIMILAR INCIDENT.

6. EMBASSY COMMENT: IRONY IS THAT MOST RESPONSIBLE GCOB OFFICIALS (INCLUDING FINANCE SECRETARY AT MINISTRY OF FINANCE AND GOVERNOR OF CENTRAL BANK) DO NOT BELIEVE INCOME TAX WILL EVER BE A VIABLE SOLUTION FOR GCOB REVENUE PROBLEMS. ONE, THEY ARE AFRAID OF JEOPARDIZING TAX HAVEN STATUS AND TWO, BECAUSE TAX BASE WOULD BE SO SMALL THAT BUREAUCRACY REQUIRED TO ADMINISTER INCOME TAX COLLECTION MIGHT BE TOO COSTLY FOR AMOUNT TO BE GAINED.

7. OTHER ISSUES: LESS PUBLICIZED WAS CARLTON FRANCIS' (FORMER MIN OF FINANCE NOW HEAD OF DEVELOPMENT CORP) CALL TO "MILK THE FINANCIAL SECTOR FURTHER". HIS ACTUAL COMMENTS WERE Milder THAN THE HEADLINES THEY RECEIVED: "WE HAVE TO EXAMINE THE ADVANTAGES AND DISADVANTAGES OF OTHER TAX HAVENS AND SEE WHAT MARGINS WE HAVE TO TAP BUT NOT INJURE".

8. EMBASSY COMMENT: FRANCIS IS NOT BEING RADICAL IN CALLING FOR GCOB TO SEE IF THERE ARE WAYS OF TAPPING BUT NOT INJURING THEIR TAX HAVEN STATUS, ALTHOUGH IT IS PROBABLY MORE TRUE FOR OTHER TYPES OF INVESTMENT THAN IT IS FOR FINANCIAL INSTITUTIONS. THE SOLOMON REVELATION COMBINED WITH FRANCIS' COMMENTS WILL UNDOUBTEDLY CAUSE SOME NERVOUSNESS IN BUSINESS COMMUNITY HERE AND ABROAD. GCOB CAN BE EXPECTED TO MAKE PUBLIC LIMITED OFFICIAL USE

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AND PRIVATE STATEMENTS TO COUNTERACT SUCH A REACTION.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, CERP 0200, BUDGET DATA, CENTRAL LEGISLATURE, LEGISLATIVE BILLS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 DEC 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** shawdg  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Review Action:** RELEASED, APPROVED  
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**Review Date:** 09 SEP 2002  
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**Subject:** HOUSE DEBATE ON BAHAMAS 1975 BUDGET  
**TAGS:** ECRP, BF, IMF  
**To:** STATE  
**Type:** TE  
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